INTERNAL AUDIT COMPARATIVE ANALYSIS - MANAGEMENT CONTROL CONCEPTS

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ABSTRACT: *Given Romania's integration into the European Union we consider it appropriate to clarify some terms used in auditing activities of both public funds and European funds. International practice requires a clear separation of internal audit activities from other management control concepts and recommend to establish an internal controlling system as well as an internal audit structure under the coordination of the manager as being the only ways cap able to respond to current risks faced by public entities. Internal Audit, along its evolution - characterized by complex dynamics and adaptability - created confusion regarding the concept of control. The research presented in this paper is based on works published to date regarding the conceptual boundaries of this notion.*

KEY WORDS: *Internal audit; internal control; external auditing; management control; accounting; inspection*

JEL CLASSIFICATIONS: *M41, M42*

1. INTRODUCTION

Law no.672/2002 on public internal audit, defines this term as being "a functionally independent and objective activity, which offers security and management advice for the proper management of public revenue and expenditure, perfecting the activities of the public entity; it helps the public entity to meet their targets by a systematic and methodical approach, which assesses and improves the efficiency and effectiveness of management based on risk management, control and management processes.

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Under current Romanian legislation, *internal audit* represents the objective examination of all business activities of the entity in order to provide an independent assessment of risk management, control and management of its processes.

Internal audit helps to increase performance in economic entities, limiting waste of resources and opportunities for fraud and corruption, timely detection of anomalies and deficiencies. Internal audit activities shall be exercised by individuals within the entity inside or outside it. Internal audit practices differ according to size, structure and activities of the entity.

In this paper, we shall focus on factors determining similarities and differences between the concept of internal audit and concepts such as internal control, external auditing, accounting, external consultancy, inspection and not least management control.

2. THE CONCEPT OF *AUDIT* IN SPECIALIZED LITERATURE

The term ***audit*** comes from the Latin word ***audit-auditare***, which means ***"to listen"***, but the world started to use this notion ever since the epoch of Assyrians, Egyptians, or during the reign of Charles the Great or Edward I of England. Even in Romania, audits were conducted over time, but bore other names (Ivan, 2009).

Internal audit is an independent and objective functional activity, which gives security and management advice for the proper management of public revenue and expenditure, perfecting the activities of the public entity, it helps the public entity to meet their targets by a systematic and methodical approach, which assesses and improves the efficiency and effectiveness of management based on risk management, control and management processes.

In literature, the internal audit is described as being designed to identify and analyze a problem, to formulate sound and effective advice to improve the situation (*Standard, 2410 - The content of communication 'Which recommends: "Objectives and communication should include scope of the mission as well as the Conclusions, recommendations and action plan"*) (Calotă, 2009).

Analyzing the evolution of the internal audit function, so far, we are able to highlight the following elements as being directly involved in the audited entity's life, ie: advice given to managers, aid offered to workers, and also the total independence and objectivity of auditors (Ivan, 2009).

There are authors who consider that the use of the word "*activity*" to define the internal audit, instead of "*function*" situates the person responsible in a subordinate position, considering that an activity is more basic than a function (Ghiță, 2008).

The definition of "internal auditor" proposed by the Institute of Internal Audit is as follows: "the internal auditor executes, within an organization, an evaluation function in order to examine and assess the functioning, the coherence and efficiency of his internal control.

At EU level, internal audit has been approached within four European Community Directives: Forth Directive 78/660 of 07.25.1983 (as amended by Directive 90/64 and 90/605 of 8th November 1990); Seventh Directive 83/349 of 06.13.1983 (amended by Directive 90/64 and 90/605 of 8th November 1990); Directive

86 / 635 of 12.08.1986 concerning the annual accounts and consolidated accounts of banks and other financial institutions; the Eighth Directive 84/253 of 10th April 1984 (amended in 2005) (Calotă & Iana, 2009).

In defining a specific activity an important role is given to the objectives, so we believe it appropriate to present the main objectives of public internal audit:

- to provide objective and counselling activities in order to improve the systems and the activities of public entities;
- to support the accomplishment of the objectives of the public entity through a systematic and methodical approach, which assesses and improves the effectiveness of management based on risk management, on control and on governance processes.

The elements defining the concept of internal audit are: the independence and objectivity of work, the evaluation function, the role of improving the entity's activity, effective risk management and improving controls and management activities.

If we made an analysis of the definitions of internal audit, we may highlight the need for improved construction of this concept giving greater scope and wider availability for creative intervention and ingenious solution to problems relating to development and efficiency of internal audit. We can also say that internal audit has evolved continuously since its appearance, and this is due to the fact that the scientific research of the specific financial and accounting documents was its starting point. Today, internal audits involve carrying out a critical analysis of structures of economic entities and the way in which the entities' management follow the principles of economy, efficiency and effectiveness in the use and administration of financial resources.

3. COMPARATIVE ANALYSIS BETWEEN INTERNAL AUDITUL AND OTHER MANAGEMENT CONTROL CONCEPTS

Based on the above definitions and knowledge achieved in practice concerning confusions between the concept of internal auditing and other management control concepts, we consider our approach as necessary for a better understanding of the concept mentioned above. In this regard we shall present similarities and differences between internal audit and internal control, external auditing, accounting, external consultancy, inspection and, not least, management control.

Internal Audit - Internal Control. For the International Standards on Auditing, control represents any activity of the management, council or other parties, to improve risk management and increase the probability rate that the targets and the objectives previously established are met. Internal audit should not be confused with internal control because the latter is a continuous or periodic review of an activity or a situation done in order to watch its progress and to undertake improvement measures.

National laws stipulate that internal control represents all forms of control at the level of the public entity, including internal audit, established by management in accordance with its objectives and regulations, to ensure that funds are administered economically, efficiently and effectively.

To highlight similarities and differences between the two concepts, we refer to the following (Renard, 2003):

Table 1. Internal audit - Internal control

Criteria	Internal audit	Internal control
Status	Integrated in the economic entity or be an external specialist firm.	Integrated economic entity.
Position function	Organized at the highest level.	Organized at every level of management.
Objective	Management oversight and verification of company financial statements are lawful if made Evaluate and make suitable recommendations for improving governance.	Develop policies, rules and procedures for the proper functioning of the entities and eliminate the risks.
Beneficiaries	Shareholders, the Board, employees, directors.	Management entity at all levels.
Who to report to	General Assembly or Board.	Report of the Head and not hierarchical at the highest level of management.
Measures undertaken	Check referrals made to shareholders, issue recommendations, draw up the internal audit reports on management company	Make findings, determine liability and seeks recovery findings
Methodology used	Has a well established methodology, specific targeting risk assessment and adding value.	There is a specific methodology, but based on legal provisions or own.

A parallel between the two concepts appreciates the vital role of internal audit and management aid, "to take up the reins of internal control", so Morris considers the internal control as an instrument of internal audit and consolidates thus the role of internal audit: to ensure/to guarantee the quality of internal controls and the way it is implemented, the accuracy and effectiveness of the strategy implemented, offering him courage and confidence (Ghiță, 2008).

According to other authors (Bostan & Grosu, 2010), we notice differences in what the role of internal control over external and internal audit is concerned, so that internal control is a means for external audit, while for internal audit, it appears as an objective.

Internal audit - external audit. The external audit is an independent function of the economic entity whose main function is to opine about the accuracy of the accounts information and financial statements of the results, while being the source of the concept of internal audit. External audit, also known under the name of financial audit, is generally applied only to the accounting function based on the financial statements; sometimes the internal auditor has to check the control system through tests in order to increase confidence in audited financial statements.

Regarding the similarities between internal and external audits, we can mention the existence of legal regulations regarding the exertion of internal or external auditor function, the importance of findings in the entity's management, the wording of the results of this work, namely writing an audit report.

The main differences between internal and external audit are outlined in the following table (Renard, 2003):

Table 2. Internal audit - External audit

Criteria	Internal audit	External audit
Status	Integrated company, or be an external specialist firm.	External specialist company; Provides services and is legally independent.
Who designates	The driver of the head entity of public internal audit department of the superior body, as General meeting of shareholders or the Board.	General meeting of shareholders or the Board and also any financier (investor);
Audit's objectives	Management oversight and verification that the company financial statements are legally established; Evaluate and make appropriate recommendations for improving governance.	Expression of views on information from the accounts and financial statements. External audit and evaluate internal control him, but only for factors such accounts.
Audit's beneficiaries	Shareholders, the Board, employees, directors.	All those who want an outside opinion on the financial situation: stakeholders, authorities, customers, suppliers.
Audit's domain of application	Field is broad as it includes all business functions (accounts, resources human, logistics, IT, environment, asset management).	Field is narrower, focusing on checking those issues that determine the financial position and business performance.

The field of interest of internal audit is represented by the regularity and performance of the financial-accounting function exertion, while external audit opines about the regularity, sincerity and faithful image of accounts and financial statements.

Internal audit is complementary to external audit, because it provides external audit with necessary information, but, at the same time, external audit is complementary to internal audit, particularly if interventions auditor to express an opinion on the financial statements.

The common features of both concepts are banning the interference in the entity's management and using the same tools and techniques, even if the methodology can sometimes be different.

It is known that internal audit is seen particularly in public entities, but it must extend to the private sector, where an external audit (financial) has been preferred so far, it has a significant role for the payment of the eligible under in a project grant.

Internal Audit - Accounting. Even if in Romania the concept of audit has recently manifested an ascending evolution as regards knowledge and applicability, there are still managers who do not know the difference between the two concepts. This confusion was fuelled by the situation in post-December Romania because the majority of audit missions focused on the financial and accounting activities of the entity, but also because people who made this work were trained as accountants.

In order to understand the difference between these two concepts, we should stress upon the fact that the chartered accountant interferes within the following areas: organizing the accounting and business management, tax obligations, the enterprise computerization and only lastly in the enterprise audit. Instead, the internal auditor will conduct a check that will measure and evaluate the effectiveness of existing controls within the entity. So, accounting means respecting the laws, while internal audit means efficiency.

In the literature there is the opinion that internal audit is a subdivision of accounting, because internal audit is studied within accounting and it is often carried out by specialists in accounting.

Internal audit - external consultancy. Law no.672/2002 on public internal audit refers to external consultancy, as being recommended to solve outstanding issues encountered within the entity. To highlight similarities and differences between the two concepts we will achieve the following table:

Table 3. Internal audit - External consultancy

Criteria	Internal audit	External consultancy
Systems used	Use reference systems of the entity.	Use different reference systems.
Who makes	The auditor is an expert in internal control and risk management.	External consultant is an expert in various fields.
Domain of application	Entity acts on all functions.	Contribute to solving specific problems.
Beneficiaries	General Manager.	The general manager or an official who requested the report
Duration	Continuous function of the entity.	Occasional activities with clear objectives and a fixed-term advance.

Internal Audit - Inspection. In our case, based on a review of the literature, we believe that common definitions have no other role than to reinforce the confusion of the two concepts; the vocabulary used in practice has also a significant role in deepening the confusion.

Regarding the differences between internal audit and inspection, we can mention the following aspects:

- Inspection is not intended to interpret or call into question the rules and directives, and if it does, we have to deal with an inspection which exercises, at least partly, an internal audit function.
- Inspection is meant to carry out exhaustive controls rather than simple random tests;
- The inspection may occur spontaneously on its own initiative, while internal audit is involved not without a mandate;
- Inspection can be demanded following the discoveries made by internal audit in order to inspect the operational staff involved or suspected of being involved.

Given the objectives of the two activities, they are not mutually exclusive, since the analysis made by the inspectors can often represent a source of information for internal auditors.

Internal Audit - Management Control. Management control has been created to verify that entities follow the trend strategy required by managers.

In the literature, management control is defined as a process by which managers ensure that resources are optimal and efficiently used, but effectively too, so as to achieve the objectives. A careful analysis of concepts of public internal audit and management control indicates the conceptual limits of public internal audit in relation to financial control management.

Management control covers the following objectives:

- Availability, integrity, preservation and security measures of any kind and amounts held in any way;
- Use of materials, decommissioning and disposal of assets;
- Made in cash or through account of receipts and payments in lei or foreign currency, of any kind, including wages and deductions from these and other obligations to employees;
- Preparation and circulation of primary documents and technical-operational and accounting records.

4. CONCLUSIONS

In this paper we presented the vision of specialists in finance, accounting and auditing, and we also made references to national and European legal requirements relating to internal audit. Personal contribution to this work involves carrying out a survey of bibliographic landmarks identified in the literature on management control concepts.

The conclusions of this study can be summarized as follows: internal audit should be an independent and objective functional structure to advise the management entity in order to achieve the entity's strategic objectives; we can also focus on the need of adapting the national legal framework with the European one, as well as strengthening internal audit function within the private sector entities. As far as we are concerned, we consider it necessary to achieve a clear delineation of instruments used within an entity together with internal audit.

Finally we shall present the conclusion that other authors who realized the same scientific approach reached, and that we share, too, i.e. “beyond the conceptual interferences and limits, public internal audit exists and will continue to exist for entities because without effective management risk and permanent and pertinent evaluation of the system by which the entity seeks to control all its activities, the only base and hope for success remains the hazard” (Morariu et al., 2008).

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